

**Direct Testimony**

**of**

**Peter Lazare**

Rates Department

Financial Analysis Division

Illinois Commerce Commission

Cherry Hills Water Company

Docket No. 03-0401

August 28, 2003

1

2 **Q. Please state your name and business address.**

3 A. My name is Peter Lazare. My business address is 527 East Capitol Avenue,  
4 Springfield, Illinois 62701.

5

6 **Q. What is your present position?**

7 A. I am a Senior Economic Analyst with the Illinois Commerce Commission  
8 ("Commission"). I work in the Financial Analysis Division on rate design and  
9 cost-of-service issues.

10

11 **Q. What is your experience in the regulatory field?**

12 A. My experience includes eleven years of employment at the Commission where I  
13 have provided testimony and performed related ratemaking tasks. My testimony  
14 has addressed cost-of-service, rate design, load forecasting and demand-side  
15 management issues that concern both electric and gas utilities.

16

17 Previously, I served as a Research Associate with the Tellus Institute, an energy  
18 and environmental consulting firm in Boston, Massachusetts. I also spent two  
19 years with the Minnesota Department of Public Service as a Senior Rate Analyst,  
20 addressing rate design issues and evaluating utility-sponsored energy  
21 conservation programs.

22

23 **Q. Please discuss your educational background.**

24 A. I received a B.A. in Economics and History from the University of Wisconsin and  
25 an M.A. in Economics from the University of Illinois at Springfield in 1996.

26

27 **Q. What is the focus of your testimony in this case?**

28 A. I focus on cost of service and rate design issues related to Cherry Hills Water  
29 Company's ("Cherry Hills" or "Company") filing for a general increase in rates. I  
30 present testimony and exhibits concerning water rate design issues. I also testify  
31 to the proposed test year billing units, as well as, proposed miscellaneous tariff  
32 charges.

33

34 **Q. Are you addressing any revenue requirement issues for the Company in**  
35 **this proceeding?**

36 A. No, I focus my review solely on the proposed tariffs (and underlying support) filed  
37 by the Company to recover the revenue requirement deemed appropriate in this  
38 proceeding.

39

40 **Q. Please explain how your testimony is organized.**

41 A. I begin by examining the Company's proposed rates and the accompanying  
42 support. Then, I review the Company's proposed water proforma total revenues  
43 and discuss test year billing units. I then discuss the design of rates for metered  
44 service. Finally, I discuss the development of charges associated with  
45 miscellaneous revenues.

46

47 **Q. Have you attached any schedules to your testimony?**

48 A. Yes, I have attached the following schedules:

49

50 Schedule 5.1- Recalculation of metered revenues

51 Schedule 5.2- Plant in Service and Expense accounts required for cost of service

52 study

53 Schedule 5.3- Design of Current, Company-proposed and Staff-proposed rates.

54 Schedule 5.4- Typical Bill Calculation

55

56 **Q. Please describe Cherry Hills Water Company.**

57 A. Cherry Hills is a wholly owned subsidiary of Utilities, Inc. ("UI"), which possesses

58 24 water and wastewater utilities in Illinois. Cherry Hills provides water usage

59 service to approximately 236 customers in Will County (Ross, Direct Testimony,

60 p. 2).

61

62 Cherry Hills, along with all of UI's water and wastewater systems is run by Water

63 Service Corporation ("WSC") which provides management, administration,

64 engineering, accounting, billing, data processing, and regulatory services for the

65 utility systems. (Ross, Direct Testimony, p. 1)

66

67 **Q. What are the Company's current metered rates for Cherry Hills customers?**

68 A. The Company's current rate structure consists of Base facilities charges billed

69 quarterly of \$18.00 for 5/8" meters and \$51.45 for a single 2" mobile home park

meter and a single block Gallonage Charge of \$4.24 for all metered customers  
(Ross Direct Testimony, Schedule D).

**Q. What changes does the Company propose to these rates?**

A. The Company proposes two sets of changes. One proposal would change the billing frequency from quarterly to monthly, which means the number of customer bills would increase from 4 to 12 per year.

Second, the Company proposes a new set of charges for metered water service. For Base Facilities Charges, the Company proposal includes \$7.75 per month for 5/8" meters and \$22.50 for the 2" mobile home park meter. The proposed Gallonage Charge is \$4.74 per thousand gallons (Ross Direct Testimony, Schedule E).

**Q. What levels of increase does the Company propose for metered charges?**

A. The Company proposes significant increases for both Facilities and Gallonage charges. Looking at Facilities charges first, the Company is proposing an increase in the 5/8" meter charge of \$1.75, or approximately 29% from \$6.00 to \$7.75 and an increase of \$5.35, or approximately 31% in the 2" meter charge from \$17.15 to \$22.50.

For the Gallonage charge, the Company proposal amounts to an increase of \$.50 per thousand gallons, or approximately 12%.

93

94 **Q. What is the first issue with respect to the Company's rates?**

95 A. The issue is the Company proposal to increase the billing frequency from  
96 quarterly to monthly.

97

98 **Q. How is this issue addressed by Staff?**

99 A. It is addressed in the testimony of Staff Witness Bill Marr.

100

101 **Q. What is the next issue for the Company?**

102 A. This issue concerns the accuracy of the Company's calculations of current and  
103 proposed metered revenues for this case. The Company calculates a total of  
104 \$88,842 in current revenues and \$102,162 in proposed revenues for metered  
105 service (Ross Direct Testimony, Schedules D and E). To derive these revenues,  
106 the Company multiplies the current and proposed customer and usage charges  
107 by the applicable billing and usage units.

108

109 **Q. Please assess the accuracy of the Company's calculation of current and  
110 proposed metered revenues?**

111 A. I find the Company's calculation of current revenues more accurate than the  
112 calculation of proposed revenues. This conclusion is based on a recalculation of  
113 current and proposed revenues using the attached Schedule 5.1. The  
114 recalculation of current metered revenues produces the same \$88,842 calculated  
115 by the Company. However, a recalculation of metered revenues under the

Company's proposed rates produces higher revenues than the Company calculates, \$102,264 vs. \$102,162. Staff considers its figure more reliable and, therefore the Commission should associate a higher level of revenues with the Company's proposed rates.

This revenue difference should not present a significant issue for the current proceeding because any set of compliance rates will be reviewed by Staff to ensure they produce the desired level of revenues.

**Q. What test year water usage levels and billing units does the Company propose in this case?**

A. The Company proposes to use year ending December 2002 usage levels and billing units for the test year (Ross Direct Testimony, p. 2).

**Q. Do you have any adjustments to the Company's proposed proforma test year usage levels and billing units?**

A. No, I have examined and the Company's proposed usage levels and billing units and find them acceptable.

**Q. Turning to the Company's proposed metered rates, does the Company provide any support for its proposed charges?**

A. No, the Company simply presents the proposed rates without presenting any accompanying justification, cost or otherwise.

139

140 **Q. Does this lack of cost support present a problem?**

141 A. Yes. The Commission has a longstanding objective of basing rates on costs. The  
142 lack of a cost foundation means that the Company's proposals fall short of this  
143 objective.

144

145 **Q. How would Staff normally address the Company's failure to base its**  
146 **proposed rates on costs?**

147 A. The normal response would be for Staff to develop an alternative cost of service  
148 study to use as a foundation for deriving cost-based rates.

149

150 **Q. Is such an approach possible in this proceeding?**

151 A. No, it is not.

152

153 **Q. Please explain.**

154 A. The Company has provided insufficient data to develop cost of service study for  
155 this case. Staff's water COS study requires detailed cost and plant information in  
156 order to generate rates that are considered cost based. To secure that  
157 information, Staff sent a data request to the Company (WDM 1.33) that identified  
158 specific categories, which would enable Staff to perform a COS study. The  
159 Company did respond to Staff's data request by providing information, but the  
160 information was not broken down in an appropriate manner.

161



162 For example, the Staff Study needs to identify the costs associated with billing in  
163 order to determine the appropriate levels of customer charges. To determine that  
164 figure, Staff asked the Company to identify the level of Customer Account  
165 expenses. The Company stated in response that it incurs no Customer Accounts  
166 expenses. That clearly is not possible because the Company incurs expenses  
167 such as postage, paper, labor and related costs in maintaining customer  
168 accounts. To accept the Company number would clearly undermine the accuracy  
169 of Staff's cost of service study. However, there is no support on the record for  
170 using an alternative Customer Accounts figure. This lack of data thereby  
171 undermines the effort to develop a cost of service study for the Company.

172  
173 Additional questions arise concerning other account data provided by the  
174 Company for Staff's cost of service study. The Company identified \$24,181 of  
175 Plant in Service costs associated with services. However, it did not attribute any  
176 Operation and Maintenance expenses to those services. This unrealistically  
177 assumes that a significant component does not require any additional  
178 expenditure to be operated or maintained. In addition, no expenses were  
179 identified for Transmission and Distribution related supervision, hydrants, and  
180 storage. While it is possible that the Company may not have expended costs in  
181 some of these categories since the last rate case, the possibility of no  
182 expenditures in all the categories mentioned is quite low.

184 The more likely explanation is that the Company does not have the kind of  
185 reliable, specific information necessary to perform a cost of service study. This  
186 conclusion is supported by a phone conversation with Company witness Ross  
187 who indicated that the Company does not keep the detailed type of records Staff  
188 needs for its COS study.

189  
190 **Q. What alternative methodology do you propose to design rates?**

191 A. I propose to apply an across-the-board equal percentage increase to current  
192 rates to meet the revenue requirement proposed by Staff Witness Hathhorn.

193  
194 **Q. What is the justification for your proposed approach?**

195 A. It is justified by the lack of accurate data to develop a cost-based alternative. As  
196 previously noted, the Company has failed to provide the necessary information to  
197 develop a cost of service study for this case. Thus, there is no cost foundation for  
198 increasing one charge more or less than another. In the absence of such  
199 support, the most equitable approach is to increase all charges on an equal  
200 percentage basis, which is my proposal in this case.

201  
202 **Q. What specific charges for metered service have you developed based on**  
203 **your across-the-board approach?**

204 A. I have developed the set of charges presented in Schedule 5.3. These  
205 recommended increases were based on applying an equal percentage increase

206 to existing charges to produce Staff's proposed revenue requirement net of the  
207 revenues produced by miscellaneous charges.  
208

209 **Q. Do you have any recommendations to the Commission to improve the**  
210 **quality of the cost data provided by the Company in future rate cases?**

211 A. Yes, I recommend that the Commission direct the Company to provide reliable  
212 and accurate data that conforms to the categories of costs presented in Schedule  
213 5.2. This cost data is essential because it represents the minimum level of cost  
214 detail necessary to prepare a cost of service study. Furthermore, in developing  
215 this cost data, the Company should be directed to show how all costs incurred on  
216 a system-wide basis are allocated to each individual water company.  
217

218 **Q. Do you have any further recommendation to the Commission concerning**  
219 **future UI proceedings?**

220 A. Yes, I recommend that the Commission not limit this directive to Northern Hills  
221 only, but rather require UI to provide more complete, accurate cost data for all  
222 future rate cases by any of its Illinois affiliates. Staff has found that cost data  
223 problems are not limited to a single utility. Therefore, it is essential that UI be  
224 required to adopt a company-wide policy of upgrading its cost information.  
225

226 **Q. Has the Company identified additional charges to customers for the Test**  
227 **Year?**

228 A. Yes, the Company has identified the following additional charges for the Test  
229 Year: \$22.80 in variable revenues associated with late payment charges; \$120 in  
230 new customer charges; \$40 in reconnection charges; \$14 in NSF check charges  
231 (Company response to Staff Request WDM 1.07) and \$218 in forfeited discounts  
232 (Company Response to ICC Data Request WDM 1.14).

233

234 **Q. What is the relationship between Forfeited Discounts and Late Payment**  
235 **fees?**

236 A. The Company has indicated through direct conversation that the forfeited  
237 discount figure of \$218 represents the full amount of late payment fees collected  
238 by the Company for the test year. In other words, this \$218 supersedes the  
239 \$22.80 identified as late payment fees by the Company.

240

241 **Q. How have you therefore treated forfeited discounts in the calculation of**  
242 **Test Year revenues?**

243 A. I have kept the Forfeited Discounts figure of \$218 and removed the \$22.80 Late  
244 Payment Charge figure in the calculation of miscellaneous revenues.

245

246 **Q. Has the Company accurately accounted for these additional charges in its**  
247 **revenue calculations?**

248 A. It has accounted for these charges accurately for current revenues. However,  
249 there is one problem with its accounting for these charges with respect to  
250 proposed revenues. That problem lies with variable revenues associated with late

251 payment charges, which are calculated as a percentage of customer bills (a 1.5  
252 percent add-on). The Company identifies no increase in late payment revenues  
253 from present to proposed rates even though they will rise if an increase is  
254 granted in this case. I have corrected this problem by tying the increase in late  
255 payment revenues to the revenue requirement increase granted in this case.

256  
257 **Q. Do you have any recommendations for the development of miscellaneous**  
258 **charges?**

259 A. Yes, I propose that miscellaneous charges be consistent to the extent possible  
260 with the corresponding miscellaneous charges for other Utilities, Inc. water  
261 companies participating in the current round of rate proceedings. To that end, I  
262 propose an NSF Check Charge of \$10.

263  
264 **Q. Please explain your proposed NSF Check Charge of \$10.**

265 A. The Company's current charge is \$7, which has been in effect since 1995  
266 (Company Response to WDM 1.12). However, as the Company itself recognizes  
267 there has been inflation since 1995 and the proposed charge should be adjusted  
268 accordingly (Id.). In addition, the Company states it would not object to a uniform  
269 NSF check charge across UI operating companies (Id.). The Staff proposed \$10  
270 charge recognizes the impact of inflation since 1995. Further, given that there is  
271 currently a \$10 NSF charge in effect for UI's Northern Hills Water & Sewer  
272 Company that was approved by the Commission in Docket No. 98-0045. Staff's  
273 proposal is more consistent with current Commission practice. Finally, since this

274 same proposal is made for other UI companies, it will advance the goal of  
275 uniformity.

276

277 **Q. Did you prepare a typical bill comparison?**

278 A. Yes, I did. It is attached as Schedule 5.4.

279

280 **Q. If the Commission determines a revenue requirement for the water portion**  
281 **of Cherry Hills, other than that recommended by Staff, how do you**  
282 **recommend the rates be adjusted?**

283 A. I recommend that metered rates be adjusted on an equal percentage basis to  
284 produce the revenues adopted by the Commission in this proceeding. That would  
285 be consistent with Staff's overall rate design approach of raising rates on an  
286 equal percentage basis.

287

288 **Q. Please summarize your recommendations in this proceeding.**

289 A. I recommend the following:

290 1. The Commission order the Company file new Rate tariffs within ten (10)  
291 days of the Commission order, attached to Company witness Ross' direct  
292 testimony, with an effective date of not less than ten (10) business days  
293 after the date of filing, for service rendered on and after their effective  
294 date, with individual tariff sheets to be corrected within that time period if  
295 necessary.

296           2.     The Commission order the Company to provide reliable and accurate data  
297                   that conforms to the categories of costs presented in ICC Staff Schedule  
298                   5.2, and that UI be required to adopt a company-wide policy of upgrading  
299                   its cost information.

300

301   **Q.     Does this conclude your direct testimony?**

302   **A.     Yes, it does.**

**RECALCULATION OF METERED REVENUES**

	Company Present			Company Proposed		
	Billing Units	Rate	Revenue	Billing Units	Rate	Revenue
<b>FACILITIES CHARGES</b>						
5/8"	2,787	\$6.00	\$16,722	2,787	\$7.75	\$21,599
3/4"		\$7.00	\$0		\$9.10	
1"		\$8.65	\$0		\$11.25	
1.5"		\$12.40	\$0		\$16.10	
2.0"	12	\$17.15	\$206	12	\$22.50	\$270
3.0"		\$27.25	\$0		\$35.45	
4.0"		\$41.80	\$0		\$54.35	
<b>SUBTOTAL</b>			\$16,928			\$21,869
<b>GALLONAGE CHARGES</b>						
Metered	16961.008	\$4.24	\$71,915	16961.008	\$4.74	\$80,395
<b>SUBTOTAL FACILITIES AND GALLONAGE</b>			\$88,842			\$102,264



	<b>PLANT IN SERVICE</b>
INTANGIBLE PLANT	
SOURCE OF SUPPLY	
PUMPING PLANT	
WATER TREATMENT PLANT	
TRANSMISSION AND DISTRIBUTION	
Mains	
Meters	
Services	
Hydrants	
Storage	
GENERAL PLANT	
TOTAL PLANT IN SERVICE	

	<b>O &amp; M EXPENSES</b>
<b>SOURCE OF SUPPLY</b>	
<b>PUMPING EXPENSES</b>	
Electrical	
Other	
<b>WATER TREATMENT EXPENSE</b>	
Chemicals	
Other	
<b>TRANSMISSION AND DISTRIBUTION</b>	
Supervision	
Mains	
Storage/Structures	
Hydrants	
Meters	
Services	
Misc. Rents, Other Plant	
<b>CUSTOMER ACCOUNTS EXPENSE</b>	
Remainder excl. uncol.	
<b>SALES EXPENSES</b>	
<b>ADMINISTRATIVE AND GENERAL</b>	
Uncollectible	
<b>SUBTOTAL OPER. &amp; MAIN.</b>	
<b>RECONCILIATION</b>	
<b>TOTAL OPERATION &amp; MAINTENANCE</b>	
Depreciation	
Other Taxes	
Income Taxes	
Utility Operating Income	
<b>TOTAL</b>	

# RATE DESIGN ANALYSIS

Docket No. 03-0401

ICC Staff Exhibit 5.0

Schedule 5.3

	Company Present			Company Proposed			% increase over Present	Staff Proposed			% increase over Present
	Billing Units	Rate	Revenue	Billing Units	Rate	Revenue		Billing Units	Rate	Revenue	
FACILITIES CHARGES											
5/8"	2,787	\$6.00	\$16,722	2,787	\$7.75	\$21,599	29.2%	2,787	\$6.38	\$17,781	6.3%
3/4"		\$7.00	\$0		\$9.10				\$7.45		6.4%
1"		\$8.65	\$0		\$11.25				\$9.20		
1.5"		\$12.40	\$0		\$16.10				\$13.19		6.4%
2.0"	12	\$17.15	\$206	12	\$22.50	\$270	31.2%	12	\$18.24	\$219	6.4%
3.0"		\$27.25	\$0		\$35.45				\$28.98		6.3%
4.0"		\$41.80	\$0		\$54.35				\$44.46		6.4%
SUBTOTAL			\$16,928			\$21,869	29.2%			\$18,000	6.3%
GALLONAGE CHARGES											
Metered	16961.008	\$4.24	\$71,915	16961.008	\$4.74	\$80,395	11.8%	16961.008	\$4.51	\$76,494	6.4%
SUBTOTAL FACILITIES AND GALLONAGE			\$88,842			\$102,264	15.1%			\$94,494	6.4%
OTHER REVENUE											
Late Payment Fees			\$218			\$218	0.0%			\$232	6.4%
New Customer Charge			\$120			\$120	0.0%			\$120	0.0%
Misc. Service Revenues			\$0			\$0				\$0	
Uncollectible Accounts			\$0			\$0				\$0	
Reconnection Fee			\$40			\$40	0.0%			\$40	0.0%
Non Sufficient Funds			\$14			\$14	0.0%			\$20	42.9%
OTHER REVENUES SUBTOTAL			\$392			\$392	0.0%			\$412	5.1%
TOTAL OPERATING REVENUE											
			\$89,234			\$102,656	15.0%			\$94,906	6.4%

**CHERRY HILLS UTILITY COMPANY  
TYPICAL RESIDENTIAL BILL COMPARISON**

Docket No. 03-0401  
ICC Staff Exhibit 5.0  
Schedule 5.4

LINE NO.		CURRENT	COMPANY PROPOSED	STAFF PROPOSED
1	FACILITIES CHARGE	\$6.00	\$7.75	\$6.38
2	GALLONAGE CHARGE (PER 1,000 GALLONS)	\$4.24	\$4.74	\$4.51

	USAGE 1,000 GALLONS (A)	CURRENT MONTHLY BILL (B)	COMPANY PROPOSED MONTHLY BILL (C)	DOLLAR INCREASE (D)	PERCENT INCREASE (E)	STAFF PROPOSED MONTHLY BILL (F)	DOLLAR INCREASE (G)	PERCENT INCREASE (H)
3	1	\$10.24	\$12.49	\$2.25	21.97%	\$10.89	\$0.65	6.35%
4*	2	\$14.48	\$17.23	\$2.75	18.99%	\$15.40	\$0.92	6.35%
5	3	\$18.72	\$21.97	\$3.25	17.36%	\$19.91	\$1.19	6.36%
6	6	\$31.44	\$36.19	\$4.75	15.11%	\$33.44	\$2.00	6.36%
7	9	\$44.16	\$50.41	\$6.25	14.15%	\$46.97	\$2.81	6.36%

**Notes:**

\* Typical monthly residential usage